Norio Kambayashi *Editor*

Japanese Management in Change

The Impact of Globalization and Market Principles

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Preface

Some 10 years have passed since the beginning of the twenty-first century, and "Japanese-style" management, which once attracted close attention from all over the world as a system that achieved excellent results, has lost its prominence and seems to have fallen into oblivion. As Japanese companies are suffering slumping revenues due to the prolonged economic depression, the Japanese-style system predominant in the 1980s is no longer discussed in a positive context. It is widely known that Japanese companies, on the contrary, are being asked to learn the management systems of newly industrialized Asian countries, including China and India.

It is hardly possible to find academic research on the reality of Japanese companies from the perspective of international comparison in today's academic society, possibly due to those companies' prolonged depression. In the first place, stagnant research activities in this field are understandable due to the assumption that "Nothing can be learned from the management of Japanese companies; thus, Japan should introduce the management systems of other Asian countries as soon as possible in order to aid in those companies' regeneration." Yet, is this really the correct way to think about this issue?

We understand that nothing can be created by merely recalling the Japanese-style management that prevailed a quarter century ago, and we are not striving to restore Japanese-style management in secret. However, it is clearly not enough for those who are involved in academic research to desperately shout, "Japanese companies have to learn from Asia!" without calmly reviewing Japan's previous experiences and the resultant realities from those experiences. It is first necessary to precisely understand the present situation faced by Japanese companies from the perspective of academic research. With this problem consciousness in mind, this book discusses the current management system of Japanese companies according to each aspect of management.

The most noteworthy impact on the Japanese company management system that has occurred from the 1980s to the present is the development of market fundamentalism, which has grown widespread with the development of globalization.

This book comprises three parts—(1) Management System, (2) Strategy, and (3) Organization and Personnel Affairs—each of which is divided into four chapters. Focusing on the transformation of Japanese companies in comparison with the golden age of Japanese-style management, each chapter analyzes the specific influence that the development of market fundamentalism, which grew widespread along with globalization, had on the existing management system of Japanese companies. A short summary of each chapter can be found in Sect. 1.5 of the introductory chapter. It is advisable for readers who are eager to quickly note the overall flow of this book to read the short summaries therein.

I would also like to comment on the history that spurred the publication of this book. All of the book's authors are members of the Management Problem 108 Committee, the university–industry cooperation committee affiliated with the Japan Society for the Promotion of Science (JSPS). (A list of members can be found at the end of this section.) As the JSPS website shows, the objective of the 108th Committee on Business Administration, which was established in 1947, is to "contribute to the sound development of Japanese companies by conducting research on important problems involved in corporate management in terms of theory and practice. This is accomplished through the concerted efforts of researchers of management science and related fields (academic members) as well as business managers and related businesspersons (industry members), who reveal the ways in which to solve those problems in accordance with both the philosophy and the actions that companies should practice. We have engaged in these activities by setting appropriate themes whenever the necessity arises in response to the demands of the times." For the past several years, the committee has held study meetings and open seminars roughly every 3 months, and has organized a camp for intensive discussions every summer under the above-mentioned research theme, "Japanese companies in the age of global market fundamentalism." It is a great pleasure for the authors of this book to have each chapter seen as a part of the achievements of these discussions.

Committee members visited a number of companies and facilities and interviewed them during study meetings. The committee also held lectures delivered by guest speakers in order to learn about a wide variety of ideas and thoughts specific to their positions. All such surveys are not necessarily referred to directly in this book, but the process and results of each survey were utilized in creating the ideas and inspirations that underlie each chapter. We express our heartfelt gratitude for the cooperation of the people involved in the surveys.

The committee was given publishing subsidies from a "special fund for academic promotion" by the Industry Club of Japan, which greatly contributed to the publication of this book. We are extremely grateful for the Industry Club of Japan's assistance. At the same time, we express profound gratitude to the companies that cooperated with the 108th Committee on Business Administration, as they have always supported the activities of each committee member. The publication of this book was partly subsidized by the membership fees of these cooperating companies. At the same time, we express our deep gratitude to the research project department at JSPS, particularly Ikuko Nakamura, who was directly assigned to this committee, as well as Toshiko Saito and Hiroko Sugawara, who took charge of this committee before Ikuko Nakamura.

Finally, I would like to express my sincere gratitude to Springer Japan, which readily agreed to publish this academic book, as well as all of the people at Chuokeizai-Sha, Inc., which published the Japanese volume on which this book is based. Above all, I wish to express special gratitude to Nobuyuki Nohmi, in the Editorial Department of Management Books at Chuokeizai-sha, who edited the original Japanese book.

Kobe, Japan
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Norio Kambayashi

About the Editor

Norio Kambayashi is a professor at Kobe University, Graduate School of Business Administration, in Japan. During the last 20 years, Prof. Kambayashi has taught human resource management in the School's undergraduate and postgraduate courses. He has published a number of books and articles on the subject including: *Cultural Influences on IT Use*: *A UK–Japanese Comparison* (Palgrave, 2002); *Management Education in Japan* (Chandos Oxford Publishing, 2007, co-authored with M. Morita and Y. Okabe); and *Industrial Innovation in Japan* (Routledge, 2008, co-authored with T. Hara and N. Matsushima).

Prof. Kambayashi is a member of the 108th Committee of Business Administration, University–Industry Research Cooperation, Japan Society for the Promotion of Science (JSPS). He received his Ph.D. in industrial and business studies from the University of Warwick in 2000 and also was awarded a Ph.D. in business administration by Kobe University in 2003.

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Contents

Chapter 1
Japanese Management in Change: Perspective on the New Japanese-Style Management

Norio Kambayashi

Abstract The Japanese-style system predominant in the 1980s is no longer discussed in a positive context as Japanese companies are suffering slumping revenues due to the prolonged economic depression. It is widely known that Japanese companies, on the contrary, are being asked to learn the management systems of newly industrialized Asian countries, including China and India. However, it is first necessary to precisely understand the present situation faced by Japanese companies from the perspective of academic research. With this problem consciousness in mind, this introductory chapter discusses the current management system of Japanese companies according to each aspect of management such as management system, business strategy, and organization and human resource management.

Keywords Globalization • Human Resource Management • Japanese-style Management • Management system • Market principle • Organization • Strategy

1.1 Introduction

Many Japanese companies were obliged to reform various aspects of their management system after the "economic bubble" burst of the 1990s. This led to a drastic change in various management aspects related to the market, technology, and the social system. These companies made strenuous efforts to adapt to these changes in the business environment. Several keywords, such as corporate governance reform, rampant merger and acquisition, new strategic alliance, corporate social responsibility (CSR), results-based personnel management, and reward management, indicate these changes that spread after the 1990s.

However, these new trends seem to have subsided over the past several years, and these companies are gradually entering into a new phase where they need to

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build new structures in order to cope with the environmental changes. Simultaneously, issues with the newly established systems have been steadily emerging. Currently, Japanese companies are exploring a new long-term vision in order to prepare for the future and consider these issues.

This book focuses on four aspects of corporate management—system, strategy, organization, and personnel management. It regards the aggregation of the new management system in Japanese companies as the Japanese style management system. With emphasis on these four aspects, research was conducted on the basic structure of the Japanese style management system after changes in the market, technology, and society. Further, specific functions of the basic structure of the Japanese style management system were studied including a discussion and analysis on the direction of future changes.

Reforms of corporate governance were widely discussed in the 1990s in studies on "Japanese management." It is the author's basic understanding that the discussions have made little progress since Americanization became apparent in governance and the management system. There have also been few studies conducted on the internal aspects of an organization that practices traditional Japanese management theory from an academic viewpoint.

1.2 The Japanese Management Theory: Stagnancy of Research

In undergraduate human resources management theory, the author rarely uses the phrase "Japanese management" to explain the "three sacred treasures of Japanese management." Japanese management became popular in countries all over the world (including the U.S.) in the 1980s, due to its ability to achieve excellent results. However, it is rarely mentioned in a positive context as Japanese companies suffer from stagnant results because of the languishing economic slowdown.[1]

Japanese management was able to achieve excellent results due to their philosophy of taking employees seriously and the community characteristics specific to Japanese companies (Abegglen 1958, 2006). For volatile American companies, the stagnation of Japanese companies after the bubble burst indicates that Japanese management is obsolete and their success in the 1980s was temporary. In fact, the viewpoint that the management in American companies alone is orthodox and the global standard is widespread in both Japan and the U.S.

There are very few academic counterarguments to this generalization since the changes occurring in Japanese companies have yet to be empirically verified.

[1] The phrase "Japanese management" refers to the management system of Japanese companies that is original and cannot be introduced to foreign countries, and is modified to "Japanese style management" if it is introduced to foreign countries. In this book, readers can use both terms interchangeably unless otherwise specified.

1.3 Modeling the New Japanese Style Management with a Focus on the Theory Advocated by Inagami and Whittaker

Takeshi Inagami and D.H. Whittaker published a book titled *The New Community Firm* in 2005 (Inagami and Whittaker 2005) that aims to fill a void in the research field. They researched Hitachi, Ltd., which Ronald Dore selected as a focal point of research in his book *British Factory-Japanese Factory*: *The Origins of National Diversity in Industrial Relations*, published in 1973. He analyzed Hitachi thoroughly in order to discuss how a Japanese company maintains its characteristics, even after partial modification. Each chapter of *The New Community Firm* is briefly summarized (Inagami and Whittaker 2005).[2]

This book consists of 14 chapters that are divided into three parts. The seven chapters (Chaps. 1–7) of Part I discuss the problems indicated in preceding studies pertaining to the community characteristics of Japanese companies. In Part II, the Hitachi case is discussed in detail in six chapters (Chaps. 8–13), and Chap. 14 explores the possibility of constructing a new model of corporate community in Part III.

1.3.1 The Community Characteristics of Japanese Companies and Their Transformation

In each chapter of Part I entitled “The End of the Community Firm?”, there is a discussion on whether the same underlying change in the foundation that transformed the paternalistic management based on the unity of labor and management widespread in the prewar, wartime, and postwar periods can be observed in Japanese companies after the 1990s. It discusses the issue of whether the Japanese corporate community was dissolved by the progress of the market principle and transformation of social values and if the proposal is worth discussing.

Chapter 1, “Company as Community,” studies how the central theme of this book, the concept of corporate community, was understood in preceding studies and the problems this book should propose considering. Masumi Tsuda mentioned that viewing a company as a community is not observed in Japan alone, as it is a viewpoint shared by modern companies worldwide (Tsuda 1977). However, both domestic and international literature reviews clarified that Tsuda later considered community characteristics as one of the important traits of Japanese management. He regarded them as the characteristic that distinguishes the Japanese management system from management systems of other countries, and pointed out that the

[2] The descriptions of Chap. 3 are written by Norio Kambayashi (2005) with additions and modification made to them.

community trait is relatively understood as the most important factor that distinguishes Japanese management. What the authors especially noted is the fact that the trait of corporate community relatively shared by western companies has been clearly and gradually eroded by the market principle in recent years. Consequently, the book discusses if “erosion by the market principle” can be observed in Japanese companies as it was observed in western companies. This book argues that it is possible to analyze this issue from three aspects of a Japanese company: employment practice, corporate governance, and manager’s code of conduct.

Chapter 2, “The Classic Model: Benchmarking for Change,” mentions that the fundamental traits of the original corporate community model is necessary to judge whether the corporate community of a Japanese company is actually transforming. (The term “classic model” is used in contrast to the “reform model” mentioned in Chap. 14.) The authors indicate that the core members of a company in the classic model are only regular male employees. No female employees, irregular employees, and stakeholders (shareholders) are regarded as core members. Lifetime employment, seniority wage system, and on-the-job training are available only for the core members in the classic model’s foundation, and these practices are supported by the close relationship between yearly pay increases, improved technological levels, and the cooperative relationship between labor and management. It also discusses that business managers take on the characteristics of the employees, not of shareholders, in the classic model because they become top executives with the help of internal promotion systems. Combined with the main-bank system and reciprocal shareholdings, this characteristic suggests that the top executive tends to aim to improve corporate value from a relatively long-term viewpoint.

Chapter 3, “Change and Continuity,” provides an in-depth discussion on the aspects that have changed and remain unchanged in the employment practice central to the community characteristics of Japanese companies between 1975 and 2000. Research suggests that there is no sufficient evidence indicating the collapse of this employment practice as a whole, although the idea of maintaining the lifetime employment system seems to have subsided. This is evident by the increasing amount of female regular employees and irregular employees and the implementation of an early retirement program, indicating that the lifetime employment system has been partially revised. The lifetime employment system seems to be less favorable based on the attitudes of business managers because changes in the economic and social environments, such as ongoing deflation and aging of the boomer generation, caused some companies to temporarily diversify their employment makeup. Likewise, the seniority wage system seems to have declined. The seniority wage curve of a company’s core members, namely, male regular employees, is growing less steep and an increasing intergenerational difference is present. However, the seniority wage curve of male production workers of small and medium-sized companies has been steeper over the past several years, but it is too early to conclude that the seniority wage practice has completely disappeared, although it is difficult to holistically summarize the trend. In addition, the idea of the “company man” has not disappeared completely because employees improve their skill levels as they get older through on-the-job training in most Japanese companies, and they generally have high levels of work ethic accompanied by high degrees of satisfaction with working in a company with a community organization.

Chapter 4, "Company Professionals and Creative Work," examines the employment practice of Japanese companies undergoing partial changes with the emphasis on the progress of aspiring for professionalism and resultantly increase creative work. In large Japanese companies, the number of white-collar workers, professionals and engineers, is presently increasing. This chapter discusses if this trend is compatible with the survival of the classic model. A survey clarified, however, that white-collar workers engaged in creative work in large Japanese big companies rarely move to another company to seek more challenging work or higher wages. They tend to stay in the same company for the long-term and have a high degree of belongingness, contrary to the general impression of a "professional." Although professionals in large Japanese companies do not wish to be promoted as strongly as those in the idealistic bureaucratic organization, they clearly tend to obtain skills through internal education and training and are promoted with accumulated knowledge and skills, compared with other professionals such as attorneys and medical doctors. Professionals and creative workers frequently attract much attention as a new trend of today's Japanese companies. However, the rise of these new professions and creative work does not contradict the classic model discussed in Chap. 2.

Chapter 5, "Corporate Governance and Manager's Ideologies," describes a series of reforms of the corporate governance system in Japan in the late 1990s and managers' responses to them. The authors state that the revision of the Commercial Code in 2002 approved the establishment of a committee where external directors are the majority on the board of directors and allowed the board of directors to supervise the top executive and entrust the operating officer with execution of business operations. The authors stated that the 2002 revision made a great step forward to emulating American governance in the legal system compared with previous legal system revisions. However, their study clarifies that only 36 Japanese companies introduced the American governance mechanism as of mid-2003, and a majority of Japanese companies was only conducting a gradual reform of the existing governance system framework. Above all, many large companies wish to maintain mutual shareholding and the main banking system. In addition, only a small number of Japanese companies have introduced the external board member system. The authors analyzed that the reform is gradual because managers of large Japanese companies tend to maintain long-term and stable business relations with other companies as they are doing now. Simultaneously, it should be noted that many managers place greater importance on building a mechanism to secure employees' interest and their morale instead of trying to maximize shareholders profits, even in the reformed governance system. Hence, the authors conclude that the ongoing reform of the governance system does not instantly indicate the collapse of the classic model.

Chapter 6, "Consolidated Management and Quasi Internal Labor Markets," discusses the Nippon Steel and Toray cases and explains the trend and evaluation of the so-called consolidated management that spread in Japan after the late 1990s. The quasi-internal labor markets refer to labor markets created in group companies. Each company inside a group needs to perform business activities that contribute to the entire group's profits, while keeping the identity of an individual company. Japanese companies have been exchanging human resources between group companies in the form of external assignments and employment transfers since the 1950s, and they have been promoting reforms with a desire to increase financial self-sufficiency of each group company after the bubble burst and, in particular, on the introduction of the new accounting standards in 2000. The reform apparently facilitated the erosion of the market principle to shrink the quasi-internal labor market within the group companies, resulting in the expansion of the external labor market. However, it should be noted that there is a growing tendency in personnel management to develop future executive trainees uniformly for the profit of the entire group. If emphasis is placed on the aspect of intensifying personnel exchanges inside the group, the expansion of consolidated management can even be evaluated as the expansion of the quasi-internal labor markets instead of unilateral expansion of the external labor market. Here again, the new trend of consolidated management alone does not allow for the simplism that the "wave" of the market principle invaded management practice and unilaterally eroded the characteristics of the classic model.

1.3.2 Hitachi: "Here, the Future"

Part II discusses the Hitachi Group (hereafter referred to as Hitachi) as the case most suitable and applicable to the classic model and describes its characteristics of a company community and its historical trend faithfully and minutely. Chapter 8, "Hitachi: A Dancing Giant," analyzes the factors that allowed Hitachi to become a giant and builds an analysis model for the case study. Figure 1.1 shows the authors' analysis model.

The authors stated environmental factors shown at the bottom of Fig. 1.1, namely, industrialization, stable macroeconomy, protected growing markets, rising asset values, sound basic education, and support for technological resource accumulation that allowed Hitachi to grow. They also stated that Hitachi continued to grow, making the best use of specific factors such as entrepreneurial culture, management, and innovative processes (shown inside the circle at the center of Fig. 1.1). Additionally, its stable and long-established relations in the labor market (with employees), in the capital market (with banks and shareholders), and in the product market (with customers) mainly contributed to its growth between the 1960s and 1980s.

Chapter 9 analyzes in detail the change of environment factors especially up to 1998 and Hitachi's response to them by using this analysis model as a reference. The analysis results were summarized in the same way as Fig. 1.1, and Fig. 1.2 provides the summary. Figure 1.2 illustrates what organizational problems Hitachi

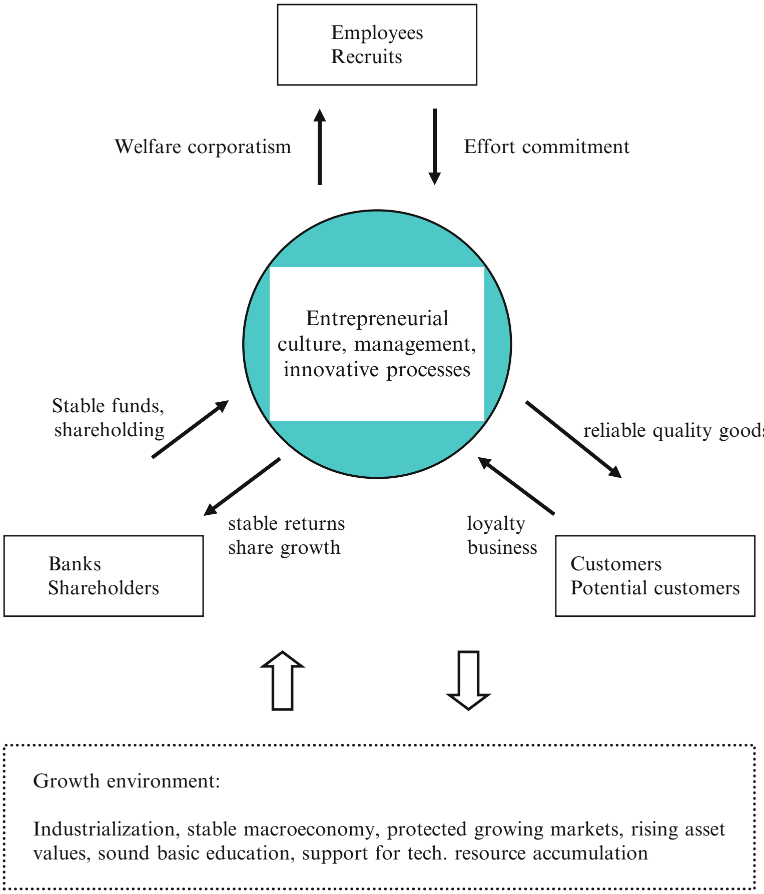

Fig. 1.1 Hitachi: A dancing giant. *Source*: Figure 8.4 on page 138 of Inagami and Whittaker (2005)

faced under the changing environmental factors in the 1990s, and for easy reference, it is contrasted with Fig. 1.1.

Likewise, Fig. 1.3 summarizes how Hitachi tried to adapt to a new environment by solving various problems indicated in Fig. 1.2, specifically the crisis in 1998 when it recorded the biggest deficit in its history, and how it successfully adapted by following the format used in Figs. 1.1 and 1.2. From Fig. 1.3, it will be possible to learn how Hitachi took measures to overcome problems in the markets of employment, capital, and product shown in Fig. 1.2, elevated declining entrepreneurship and strengthened weakening strategic management, and improved operating efficiency under the change of environment factors, such as post-industrial (servicization) transition, financialization, globalization and competition intensification, accelerating pace of scientific and technological innovation, and social change (changing perception of equality, fairness).

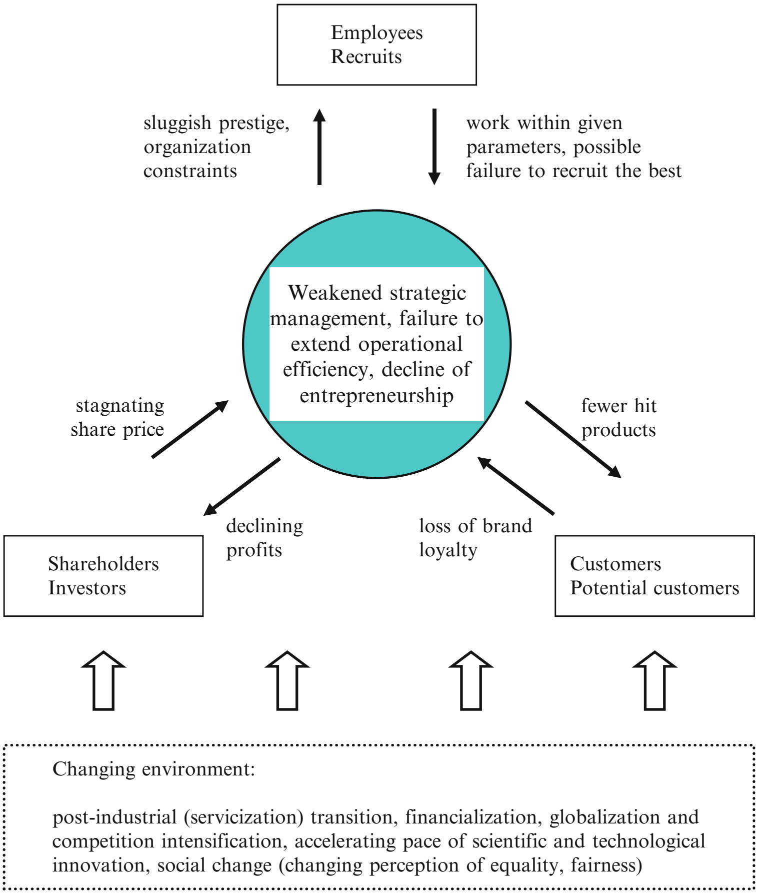

Fig. 1.2 Management problems in the 1990s. *Source*: Figure 9.1 on page 144 of Inagami and Whittaker (2005)

In order to explain the specific actions taken by Hitachi, illustrated in Fig. 1.3, Chap. 10 discusses and analyzes in detail the organization reforms and the governance system between 1998 and 2004. Chapter 11 discusses the innovation of human resources management in the same period, and Chap. 12 discusses the influence of these reforms over the labor-management relations. Although this book review cannot discuss every detail, the three figures are very interesting because they vividly depict how Hitachi recognized the crisis in 1998, what organizational response it took to cope with the crisis based on the three aspects of employment relations, relations in the capital market, and relations in the product market using the authors' micro data.

As the conclusion of the case study, Chap. 13 evaluates the transition in Hitachi's history, which is reviewed in Part II, and discusses whether it led to the collapse of the classic model of a community company. It highlights that Hitachi's